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RECORD OF A MEETING BETWEEN THE SECRETARY OF STATE FOR FOREIGN AND COMMONWEALTH AFFAIRS AND THE FEDERAL GERMAN CHANCELLOR ON TUESDAY, 26 FEBRUARY 1980 AT 1830 HOURS IN BONN

Present

The Rt Hon The Lord
Carrington KCMG MC

Sir Oliver Wright
GCVO KCMG DSC

Mr G G H Walden

Chancellor Schmidt

Herr Genscher

Herr von Staden

1. The Chancellor said that he had particularly wanted to be seen to receive Lord Carrington in Bonn, despite their earlier meeting over the weekend. He asked for an account of the discussions with Herr Genscher.

2. Lord Carrington said that they had discussed the Euro-Arab dialogue, and the Arab/Israel issue. They had agreed that Camp David was unlikely to succeed, and that any agreement would be inadequate. After May there would be a need for action to keep the dialogue open. The Nine could develop an initiative with something for both the Israelis and the Palestinians. He realised that there would be difficulties in persuading the Israelis to amend Resolution 242. But it was possible, and we should try. The Nine were not too far apart. The Dutch had come on a long way, and the French were only a little way ahead. Herr Genscher thought that the Euro-Arab dialogue should be elevated to a higher, more political plane. We had problems about talking to the PLO in view of their past association with the IRA. It might also be asked why we talked to one set of terrorists, and not to another. But contacts with the PLO would be easier if they were multilateral. The Chancellor commented that the Germans were in the same position.

3. On Afghanistan, Lord Carrington said that he and Herr Genscher agreed that the Italians should present our initiative on neutrality to the Russians, and that we should encourage the non-aligned to support it. The Chancellor said he very much agreed on the importance of the non-aligned.

4. On the Olympics, Lord Carrington said he had asked Mr Vance to postpone the second meeting of some boycotting countries until the position on alternative games was clearer. Chancellor Schmidt said that the idea of alternative games was a still-born child. It would require decisions by different branches of different sporting organisations from cycling to swimming. Those who had proposed it had no concept of the organisation of international sport. Games could be mounted for athletes, but they would not be very prestigious. Lord Carrington said that the presence of the Americans and the Germans would surely give prestige to such games. The Chancellor said that Germany would be very reluctant

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to participate; those who did could lose prestige. It was estimated that 70 countries might turn up in Moscow and only 15 in eg Montreal. Lord Carrington said that he too was sceptical, but thought that we should pursue the American idea. In the end, he thought that the Americans, Germans and French would not go to Moscow, while British sportsmen might insist on going despite the Government's attitude. The Chancellor said that this served us right for coming out too quickly in support of the Americans. Lord Carrington said that he was ready to defend our action, but agreed that the position was not satisfactory. He asked whether France would go. M François-Poncet had implied to him privately in Rome that they might not.

5. The Chancellor said that he hoped that any French change of mind would not be the result of pressure from eg American senators or the New York Times. He imagined that Brezhnev had timed his speech to come after the expiry of the American deadline on the Olympics. Lord Carrington said that we were not totally discouraged by Brezhnev's remarks. The Chancellor said that they represented the beginning of an answer to our neutrality proposal; and in any case we should construe it as an answer. This would make it more difficult for the Russians to deny that Brezhnev's speech represented a new opening. He agreed with Lord Carrington that it might be hard for the Russians to withdraw in present circumstances. According to his information, the Russians were losing 500 dead a month, and 2500 wounded. Herr Genscher said that these losses could help to create the conditions for a political solution. The Chancellor thought that it might work the other way.

6. Lord Carrington said that he and Herr Genscher had discussed the lack of proper consultation with the Americans. He himself had told Mr Vance that such consultation was essential. He referred to the proposal that the French, German and British Ambassadors in Washington should hold regular quadripartite consultations with Mr Vance. The Chancellor welcomed this idea. The very act of giving our Ambassadors instructions, which would have to be agreed by our Political Directors, would help to promote agreement amongst the three Europeans. He had heard that day from the German Ambassador in Washington that the idea was to hold such meetings with the Americans every two weeks. Lord Carrington said this sounded rather too frequent. The Chancellor said it would be no bad thing if the quadripartite meetings were at fixed intervals; this would enable us to give regular instructions to our Ambassadors. He was afraid that the Americans might want to include the Italians; the French would not like it if they did. He too hoped that they would not. He did not want the French to be embarrassed a second time. Lord Carrington said M François-Poncet had told him that the French wanted the smallest number possible to avoid embarrassment when they were obliged to disagree. The Chancellor said he sympathised with the French. The British must ensure that the Americans understood French sensitivities. Lord Carrington said he had stressed to Mr Vance the advisability of keeping the numbers to four.

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7. Lord Carrington said that he and Herr Genscher had grumbled about the organisation of political cooperation. At Rome everyone had discussed the Communiqué and not the merits of the case. The Chancellor said that the battalions of officials should be excluded and that political cooperation should be held in a very personal atmosphere. Each Minister should be accompanied by one sophisticated note-taker/adviser. Lord Carrington said he would take this up with M François-Poncet. The Chancellor said he imagined that every bit of the Commission also sat in on these discussions. They should be thrown out, except for one representative.

8. Lord Carrington said that Herr von Dohnanyi was very keen on up-grading the job of Secretary-General of the Council to strengthen the Presidency. Herr Genscher said he was against this. It would only create new machinery. The Chancellor said he had not heard of this proposal before. Under the German Presidency he had discovered the existence of the Secretariat by accident. He had asked his gardener why there was a 'Keep Off' notice on his lawn and was told this was directed at members of the Council Secretariat, who had been given an office in the Palais Schaumburg during the German Presidency. He had made enquiries and had discovered that they were an absolutely useless body. Lord Carrington said that the Germans, the French and ourselves had efficient bureaucrats. It was different for the Luxembourgers. If we were going to have a Community bureaucracy it ought to be a good one. The present one was bad. The Chancellor said that we should leave the Luxembourgers to come up with proposals about the Secretary-General.

9. The Chancellor said he wanted to say a further word about the problem of the British contribution to the Community Budget. It would be disastrous to duplicate Dublin. The Italians or the Commission should come up with a proposal; or they should say that they had no proposal at all. General discussion without an agreed proposal would add disaster to already existing tension. Lord Carrington said he shared this view. In the end only the Heads of Government could settle the problem. But if they did not discuss it there could be no decisions. There was a danger of getting into a circular situation.

10. The Chancellor said that according to the Treaty the Commission should come forward with proposals. Otherwise it should be done by the Presidency, who seemed to feel strongly enough about the issue. Lord Carrington said it would be important to decide a position beforehand. Herr Genscher said that this should be done between the British, French and Germans, and that a proposal agreed by them should be put forward by the Italians. Lord Carrington said that the possibility of a package had been mentioned. The Chancellor said that 4 or 5 components had been suggested, though he was not quite sure how keen the Prime Minister was on this.

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She had told him that Britain could not join the EMS, for example. The first time we had said we were unable to join because the pound was too low; now we were saying it was too high. He was not impressed by our arguments on either occasion. Lord Carrington handed over the following speaking note to the Chancellor, and it was pointed out to him that even German experts seemed to think it would be difficult for us to join.

11. 'Struck by importance you attach to our joining EMS exchange rate mechanism in near future.

'Fully accept political attractiveness of such a move. But is it realistic?

'All our experts say that, with pound at about DM 4 and with continuing upward pressure on pound because of oil and despite our high inflation rate, it does not make practical sense for us to fix our rate against other Community currencies. And they say your experts say so too.

'Hard to gainsay on purely political grounds and perhaps not wise to do so. But do you think the experts' judgment is wrong? If so it would be helpful if you could tell us why.'

12. The Chancellor said he himself had once been an expert. We should not believe experts whether they were British or German. The point was that pressures on the pound would exist whether we were a member of EMS or not. If we were in the EMS, we would have to revalue the pound from time to time. Whether this were done by the exchanges or otherwise was of no consequence.

Sir Oliver Wright pointed to the difficulty of the need for consultations between the Nine before changes in currency rates could take place. The Chancellor said that the Nine were in no position to resist market forces. A major advantage to the UK of membership would be that British exporters could offer stable prices, which they could not now. Lord Carrington said there was no dispute about the advantages of joining; it was a question of whether we could or not. Sir Oliver Wright said that the upward fluctuation of the pound would have strained the system had we been members. The Chancellor disputed this. All we would have had to do would be to revalue within the system. Our partners would have accepted this, and the amount of revaluation would probably be a little smaller than outside the system. The fact was that the British could not conceive of their currency being tied to that of other countries.

13. Sir Oliver Wright said that the Chancellor of the Exchequer thought that Sterling had a petro-value which bore no relation to the economic performance of the country. The Chancellor said that the Deutschmark also had international importance, as did the Dollar, despite 18% inflation in the United States. But if our experts were against entry, we should simply drop it. The Germans had no specific interest in promoting it. Lord Carrington said we would like to join, but could not see how we could. The Chancellor said that the Prime Minister had explained our position to him. But we had failed to see that fixed exchange rates would make it easier for countries like France and Germany to buy British goods

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at prices which were sometimes to be paid two years later. It would also help to restructure British trade in certain areas, and especially in European markets. Lord Carrington said that this might be true, provided that the pound did not fluctuate as over the past few months. The Chancellor said that even if we thought we would not gain much by entry, we would not risk anything either. Britain had an insular monetary policy, and a psychological problem about the EMS.

14. Sir Oliver Wright said that the Chancellor surely had a point. Sterling was high because the oil sheikhs put money into London. Given our economic problems the pound was fragile. Speculative money could leave Britain as easily as it came in. The EMS gave us only a narrow spread; the pound could go down by 15-20% as quickly as it had come up. The Chancellor said that confidence in the pound could be increased if we entered. At present this confidence was only based on oil. It had been wrong of France and Britain to leave the Snake in 1973. We had made ourselves hostages of the United States' balance of payments situation and the US Dollar. The British Prime Minister should feel attracted to the EMS if she wanted to stick to rigid economic and monetary policies. If we joined with others, this would put pressure on those who criticised the Government, and make it easier for us to resist inflationary forces, whether from trade unions or elsewhere. Lord Carrington agreed that the prospect of entry could seem attractive. The Chancellor said he had been told by the Belgian Prime Minister ten days ago that EMS had been very advantageous to Belgium in staving off inflationary pressures.

15. On the budget, the Chancellor repeated that either the Italians should be put up to making a proposal at the European Council, or we should leave it alone. The global consequences of the UK leaving the Community were too big to risk. He imagined that we were more likely to leave now that the Prime Minister had said we would withhold our contribution. Lord Carrington said that we must not allow this situation to develop, and pointed out that what the Prime Minister had said about withholding was hedged about with qualifications. It was however one of the alternatives open to any British Government. The Chancellor said that the German press appeared to have got the point wrong - not for the first time.

16. The Chancellor asked whether there was anything that we would like him to tell President Carter when he saw him next week. Lord Carrington said that consultations were crucial. In Europe we had learned the lesson of Afghanistan. But in an election year in America there would be a temptation to decide things alone, particularly given the fragmented American system between Brzezinski, Vance and the White House. The more the Chancellor could say about this the better, while making it clear that it was not a question of ill-will but of Europe's inability automatically to toe the American line. The Chancellor said that Mrs Thatcher

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had stressed this point strongly. It had been agreed that the four Heads of Government should meet in Venice, though it had also been pointed out that this might be difficult for the Italians. However, such a meeting had been held during the Tokyo Summit, though in his view the Heads of Government should meet for longer than simply a breakfast. As regards our Foreign Ministers, they should do what they could to strengthen the State Department against the National Security Council. The former was more balanced than other influences on the President.

17. Lord Carrington suggested that the Chancellor might raise the Arab/Israel issue with the President too. The Chancellor said that he would, though the President appeared to have nailed himself to the Jewish position during an interview with some American Jews yesterday. Lord Carrington mentioned the difficulties facing Saudi Arabia. The Chancellor said that there seemed to be growing signs of structural inner weakness. He asked Herr Genscher how Prince Saud had explained his decision to postpone his visit to Germany. The Secretary of State said that things had reached the point where there could be a total revolution in Saudi Arabia. The Chancellor said that he had been impressed by the Spanish Prime Minister's views on the Middle East. Sr Soares had just seen Saddam Hussain and King Hussain. He thought that Saddam Hussain could emerge as a leader in the area. He had been struck by the Spaniards' knowledge of the Arabs, and had encouraged the Prime Minister to tell us and the French his views. Lord Carrington said that the Iraqis had been active with Bakhtiar who was receiving Saudi money too. The Chancellor said there was a possibility of tilting the Iraqis away from dependence on Moscow. We should encourage this, otherwise they would continue to remain anti-American. He was impressed by the formidable military potential of Iraq. It was the only force of its kind in the area. The Iranian army was like that of the Afghans. He asked how big the Jordanian army was. Lord Carrington said that they were a tough force, to whom we were selling tanks. The Chancellor said we should sell arms to the Iraqis too. Lord Carrington explained the background to the Sparkes case. He found Saddam Hussain a strong and ruthless but not an attractive character, who had treated him to some second-rate philosophy during his visit to Iraq. He agreed with Herr Genscher however that he had leadership potential, even if he was not very wise. The Chancellor said we should encourage Saddam Hussain's ideas of increased cooperation with Europe. He also claimed to have good relations with the Saudis. On the EEC/Gulf dialogue, it was agreed that this could not be taken any further until President Giscard returned from the Gulf.

18. The Chancellor asked whether the Americans were aware of the delicacy of the Indian position. Lord Carrington said that they had treated the Indians like an elephant in the jungle by sending Brzezinski to Pakistan and only Clark Clifford to Delhi. Europe could play an important role with the Indians. The Chancellor referred obscurely to remarks alleged to have been made about him in private by Mrs Gandhi which he found 'degrading'. He agreed however that we should court her. Herr Genscher said that Mr Rao would be coming through Germany on 15 March on his way back from America. Lord Carrington said we were thinking of inviting him to the UK soon.

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19. The Chancellor said that the Prime Minister had suggested that the Venice Summit should consist of one day of political and one day of economic meetings. He entirely agreed: seven Heads of State should not spend their whole meeting talking about 1% of trade this way or that, or oil imports. We should change the character of these summit meetings. Lord Carrington agreed. This would also have the advantage of bringing the Italians and the Japanese in on political discussions. The Chancellor said that, once we were sure that the Foreign Ministers of the Seven agreed, the personal representatives of the Heads of Government should organise the meeting accordingly. An agenda for the political discussions should be worked out. It was now clear that some questions like oil which were previously thought to be economic were now even more political than two years ago.

20. The Chancellor was appalled by the thought of \$1000 billion of hot money moving around uncontrolled by central banks or monetary reserves. There was no element of prudence and no lender of the last resort. The consequences could be disastrous if somebody set off a psychological reaction. Who would be the lender of last resort in such a situation? A London bank dealing in dollars or a Zurich bank dealing in Deutschmarks? It was a big mistake to close one's eyes to such problems. A Black Friday could recur on the Euro markets with enormous consequences for the controlled part of the money supply system. It had happened twice in the last ten years, once in a New York bank and once in a German bank. We had shielded ourselves against a major chain reaction then, but he foresaw great dangers if the problem recurred, eg in a Hong Kong bank. Lord Carrington asked what the Chancellor thought of the Brandt Commission's report and whether the Chancellor favoured a Summit. The Chancellor said he had not read it. There were too many conferences. If it were a question of replacing three with one he would be in favour, but not of adding a fourth meeting. There were only twelve people in the world who understood the North/South problem, though there were 10,000 who were willing to talk about a new economic order. President Moi had asked Germany for credits to pay his oil bill during his recent visit. He had explained to him that whatever happened Kenya's oil bill would be larger next year; she should convince her oil-rich colleagues to split the market to give a preferential price to developing countries, even though this would be against German interests. At present the developing countries blamed the industrial countries for inflation caused by oil price rises. It was a ludicrous situation.

21. The population growth was also absurd, and developing countries should be told so. It would be impossible to feed and educate the future population of the world, not to speak of jobs and electricity. Lord Carrington agreed that the Brandt Report did not face all of these problems. He had been told by BP that the

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Kuwaitis were now only willing to sell oil to BP and Shell if they were given a share in down-stream activities, such as refining. This was a dangerous trend. The Chancellor said that the Arabs no longer wanted paper money. The Shah had tried to buy a major share-holding in Mercedes-Benz in 1975. The Deutsche Bank had been willing to sell, but the Chancellor had stopped it, even though he had no legal powers to do so. This was why the West should close ranks against this threat during the Venice Summit. They should not totally exclude Arab investment; they must be allowed to replace some of their money with assets. But it would be dangerous if the Arabs got further, eg in Italy than in the UK or vice versa. The best thing would be for the Arabs to pay their oil revenues into the IMF and be given SDRs in exchange: though no-one would sell them a car in exchange for SDRs. The Chancellor asked whether the Prime Minister was interested in these areas. Lord Carrington confirmed that she was.

22. The Chancellor asked about the Anglo/German Summit. Lord Carrington asked whether the Germans would like it to be as big as the Franco/German Summit. The Chancellor said that their arrangements with the French were different, and amounted to joint Cabinet meetings. The Germans could do the same with Britain if we wished but then all the Ministers would want to talk. He understood that the Prime Minister wanted mainly private talks with just two or four people present, while the other Ministers would join in later. Lord Carrington confirmed that this was the Prime Minister's preference.

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RECORD OF A MEETING BETWEEN THE SECRETARY OF STATE
FOR FOREIGN AND COMMONWEALTH AFFAIRS AND THE FRG
MINISTER FOR FOREIGN AFFAIRS ON TUESDAY 26 FEBRUARY 1980

Present:

The Rt Hon The Lord
Carrington KCMG MC

Sir Oliver Wright
GCVO KCMG DSC

Mr G G H Walden

Herr Genscher

Dr Blech

Dr Meyer-Landrut

Note taker

1. Herr Genscher said that we must convey to the Russians officially the decisions the Community had reached in Rome. The question was how. Lord Carrington said that we were meeting today with our French and German partners in London. We must move quickly. Brezhnev's speech was not as negative as had been supposed. We must show that we were serious about our neutrality proposal and that it was not just a political gimmick. The Italians would have to approach the Russians, but perhaps Mrs Gandhi could also be brought to put in a word with them. She had stuck to her guns with Gromyko, and when he himself had met her she had wanted the Russians out. This could give us a peg to approach her on behalf of the Nine.
2. Herr Genscher agreed, and said that it was important that the Italians should approach the Russians as President of the Nine. The other Eight could follow up with national approaches if they wished. We must also decide whom to approach in the Third World for support. Mrs Gandhi was one possibility. We should think of Arabs, Africans and the Yugoslavs. We could perhaps also persuade someone in the EEC ASEAN Meeting in Kuala Lumpur to support the proposal. We should not stick to formalities. The British could for example approach the Indians rather than the Presidency. Lord Carrington said that he could call in the Soviet Ambassador after the Presidency had acted in Moscow. The Indians were pivotal because they were friends of the Russians and disagreed with Soviet action. Events in Afghanistan might make it more difficult for the Russians to withdraw. Their intervention seemed to have been unsuccessful up to now. Herr Genscher agreed that the Russians now seemed to be more aware of the complexities of our position. Their prestige was also more deeply involved.
3. Lord Carrington asked whether the American Ambassador had approached him with the draft statement responding to Brezhnev's speech. He himself had found this an odd form of consultation, since Mr Brewster seemed to be informing him that the statement was to be issued whatever our views. Herr Genscher said that this had not been his impression at all; the American Chargé d'Affaires had gone out of his way to stress that comments were invited. The Germans felt that the statement had been dreamed up in the White House and that Mr Vance wanted to use the Europeans to get it changed. He agreed with Lord Carrington that

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the word "insufficient" had been wrong, and it was noted that the Americans in the event had not issued the statement.

4. Herr Genscher said that the approach of the German paper to Afghanistan was different to that of the Americans. Mr Vance's paper was not a conceptual approach to the crisis. But he agreed with its definition of what the German contribution might be. Broadly, this was a 3% increase in military spending, aid for Turkey, and non-military assistance for Pakistan. He had asked Mr Vance what the American objective was - withdrawal and containment or just containment? Mr Vance had said it was the former. He could not understand why the Americans wanted to make a statement on the lines of their first draft if they believed in withdrawal.
5. Lord Carrington said that the Chancellor had told him that the American reaction was too "punitive" and could be counter-productive. Herr Genscher agreed that there had been punitive elements in the White House statements, though Mr Vance had assured him that he personally had never used the word "punish". He asked about the decision on the Olympics.
6. Lord Carrington said that we had advised the BOC not to take part. Their decision would be made on 4 March. If the Americans, Germans and French did not go, the British might not either. It was questionable whether it was easier for sportsmen to have alternative games elsewhere or not. Some might think that alternative games would break up the Olympics. Others might wish to compete. There would be another meeting of non-participants soon, which would decide whether alternative games were feasible eg in Montreal. Britain could offer some facilities eg for yachting. These events need not necessarily take place at the same time as the Olympics but perhaps later in the year. It would be ironical if Britain ended up the only major country to be represented in Moscow.
7. Herr Genscher said that it was up to the Soviet Union to establish conditions for Western attendance. This was not an ultimatum. Lord Carrington said that it came to the same thing: the Germans were in effect asking for withdrawal from Afghanistan. Herr Genscher said that the Americans would no doubt change their stand if the Russians withdrew. The German Olympics Committee would not go if the Government told them not to. He was concerned to think that this had become a central issue in the Afghanistan problem.
8. Lord Carrington said that he was worried about political cooperation. Ministers in Rome had spent only 45 minutes discussing neutrality and 6 hours on the Communiqué about the Olympic Games. The Germans had had no chance to discuss the EEC/Gulf problem. He himself would have liked to have discussed Arab/Israel and Southern Africa. Moreover there had been no political cooperation meeting after the invasion of Afghanistan with the result that Europe did not have a concerted view. He was also unhappy about Foreign Ministers' meetings in Brussels. The agenda was appalling; foreign ministers would not go to talk about trivialities. More and more would take to going after lunch. It was all very depressing. Apart from the informal meeting of Foreign Ministers these were the only occasions when ministers could talk properly.

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9. Herr Genscher entirely agreed; in Rome, the Italian Chairman had been 20 metres away from him, because of the number of officials attending. Only in the Security Council or Panmunjon were there more people present. Each Minister should be allowed to have only one note-taker with him. When Ministers met without civil servants they could concentrate on important political issues and not on details. Lord Carrington agreed, but suggested that the Political Directors should be included too. Herr Genscher disliked this idea: Economic Directors would then want to come in too. Lord Carrington said that the Foreign Affairs Council should have a proper agenda, which was not all about tufted carpets. These should be left to Ministers responsible. Herr Genscher said that the lunch was also badly organised. There were too many people and it was impossible to talk to anyone except immediate neighbours. There should be more Gymnich-type meetings at short notice. At Foreign Affairs Councils, Junior Ministers could take smaller questions in the morning.

10. The Secretary of State said he thought he could not go to Kuala Lumpur for the EEC ASEAN meeting next week because of Rhodesia. Herr Genscher said that it would be a great disappointment to ASEAN countries if neither the British nor the French Foreign Ministers went. Lord Carrington stressed that we were on the point of getting rid of Rhodesia and it was important to ensure that there was no last minute slip. Herr Genscher said that the meeting should perhaps be postponed. The main part was the political discussions on Friday morning; it would not matter if Lord Carrington were not there for the dinner on Thursday. Lord Carrington said he would look at the timing again and think about the possibility of postponing.

11. Reverting to Afghanistan, Herr Genscher said that he thought the Russians would spin out discussions of a solution. But he had been struck by the Scientific Forum in Hamburg which the Russians had clearly not wanted to interrupt. He concluded from this that they wanted the Madrid CSCE meeting to go ahead. We should be preparing for this, perhaps in the course of the Lisbon meeting of the Council of Europe on 9-10 April. We should be clear in our minds what should be discussed in Madrid.

12. Dr Blech said that the basic structure of the meeting was agreed; a general political discussion; implementation and new proposals. The position on the last item is still fluid and we had not tried to get complete agreement yet. In a moving situation, it might be premature to do so. But we might be able to achieve an outline decision by May.

13. Herr Genscher said that after Afghanistan the need for confidence-building measures had increased. He had been considering all the possibilities. We should not lose the chance to force the East to respond to our proposals. Lord Carrington said that M. François-Poncet had thought that the Russians might not be keen on Madrid and might want to cancel it. The Scientific Forum in Hamburg seemed to contradict this. It seemed sensible to pursue the CDE provided the Russians accepted its extension to the Urals. It seemed to him impossible not to use Madrid to pursue human rights. Herr Genscher said that he should not concentrate too much on Basket three but go for a balance.

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Lord Carrington agreed. On the CDE Herr Genscher said that Mr Gierek's proposals were similar to the French in some ways, though they were a different concept, particularly in the area of applicability. We ourselves should stick to the CDE. But it was worth considering whether the Gierek ideas were a killer proposal or an attempt to accept and transform the CDE proposal into an Eastern idea.

14. Dr Blech said that the French had been afraid that the Madrid meeting might consist of an awful row on human rights and some brief discussion of CBMs. The French had been afraid that the Americans would go in a confrontational mood. But Mr Vance had now reassured them about US intentions. Herr Genscher said that we should not cancel contracts or meetings with the Russians, but bombard them with all kinds of proposals, including those on arms control prepared in Brussels. The NATO Ministerial Meeting in Turkey in June should also be carefully prepared. The six-month period after the invasion of Afghanistan should be over by then. The West should remain on the offensive, and the impact of their position on the Third World would be important. He was not sure that we would get 104 votes in the UN today. These votes were not a bank account. Lord Carrington said that our neutrality proposals could help to keep up momentum in the 104.

15. Herr Genscher asked how we had left the Arab/Israel dispute in our discussions with Mr Vance. Lord Carrington said he had told Mr Vance that he had been struck during his visit to the Middle East by the way in which the Soviet invasion of Afghanistan had been equated with American acceptance of Israeli occupation of Arab land. The moderate Arabs saw the difference in kind; but politically they found it difficult to support the Americans and the West on Afghanistan while the Arab/Israel dispute remained stuck. They were hostile to Camp David because it excluded the Palestinians and others. Camp David could not even satisfy moderate Arab opinion, and it was unlikely that there would be any agreement at all. The new Egyptian Ambassador in London had made it clear to us that they were as far apart as ever with the Israelis, and that an American compromise between the two positions would not be acceptable to them. Therefore a breakdown of Camp David was probable. But we did not want to make things more difficult for the Americans, and realised that they were in an election year. The process was due to end in May and he did not believe that it should drag on until later in the year. Even if the problem could not be solved, it was important to keep the dialogue going. The only way we could see was a double-barrelled proposal, bringing in the PLO, in which recognition of the State of Israel would be exchanged for Israeli recognition of the Palestinians' rights. This could be done by amendment of Resolution 242 or in some other way. He saw merit in the Nine talking amongst themselves to see if they could find a common position in anticipation of a breakdown of Camp David. The Israelis were already clearly alarmed: hence the London meeting of their Ambassadors.

16. Mr Vance had not disagreed with all this. But he was opposed to an initiative being launched before May, though discussion of an initiative could bring healthy pressure on the Israelis. We needed to define Palestinian rights more clearly. Herr Genscher agreed that

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nothing should be done before 25 May, but that we should have something ready by then. If we acted prematurely, we could find ourselves charged with responsibility for failure of Camp David. He shared our assessment of the prospects of Camp David. But President Sadat would not agree to the modification of Resolution 242.

17. Herr Genscher thought that the Euro/Arab dialogue should be revived. It was not necessary that all the Nine Ministers and all the Arabs should meet together. One possibility was that the Secretary-General of the Arab League and the President of the Community should meet. This could signal a positive development in relations with the Arabs. The Iraqis in particular attached importance to reviving the dialogue. This had been confirmed yesterday by the Spanish Foreign Minister who had just visited Iraq. The Middle East Working Group should clarify aspects of the Community's 1977 Declaration, especially on our attitude to the Palestinians. Lord Carrington commented that we would need to discuss these matters soon at a Ministerial meeting. On the Euro/Arab dialogue, Herr Genscher said that the inclusion of the PLO could be the beginning of a gradual road to recognition. But we should also pursue parallel talks with the Egyptians, to avoid deepening the split between them and the Israelis. Lord Carrington said that we had a political problem with the PLO, though this had diminished somewhat since they had told us that they had had no contacts with the IRA since last October. It might be easier for us to talk to them collectively.

18. Mr Meyer-Landrut said that the Libyans were trying to give the terrorists the upper hand over Arafat. We should not allow things to deteriorate in this direction. Lord Carrington commented that it was a pity that Arafat still made wild statements which were broadcast by the Israeli lobby. He noticed that he had recently spoken again of the total destruction of Israel.

19. On Saudi Arabia, Lord Carrington said that it was clear that the Saudis had not learned the lesson of the Grand Mosque incident. Mr Marcus Sieff had told him that eleven billion dollars had left Saudi Arabia for Europe together with several Princes in the month after the incident. It was difficult to speak frankly to the Saudis about their shortcomings. Herr Genscher asked what conclusion we drew about Saudi Arabia. Lord Carrington said it would be surprising if the régime lasted more than another two years. Given our reliance on Saudi oil supplies it would be catastrophic if a hostile régime came into power. Herr Genscher said that Prince Saud was expected in Bonn on Monday 3 March. He seemed to spend a lot of time outside the country.

20. On the UK contribution to the Community budget, Lord Carrington said he did not want to reiterate the details that had been discussed between the Prime Minister, Chancellor Schmidt and himself. He was increasingly worried. More than half of the Labour Party were anti-European. Their attitude was that of left-wing little Englanders. The Conservatives were almost wholly European; but they were also patriotic. If they felt they had been done down they were liable to get chauvinistic. There was a general feeling of unfairness in the UK. This would not matter, were it not for the economic situation. He

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admitted that our economic problems were of our own making. But we were trying to put them right by the revolutionary idea of living within our means. This meant cutting public expenditure, with all the implications for eg unemployment.

21. The net transfer of resources to the budget now represented nearly twice as much as our total spending on aid. In the long term the result would be either that we would have to do things that would infuriate our partners and which would cause them to look for ways of getting rid of us; or the political climate in the UK would develop against staying in the EEC. He genuinely believed this danger was on the cards. The Germans might be tempted to say good riddance, and that Britain would be worse off outside. But they should think of the other implications. If we did leave we would probably end up with a siege economy. It might be difficult to continue with our contribution to NATO, or with BAOR. We would simply not have the money, and would find ourselves on a downward escalator. We would then be talking, not just of a bust-up of the EEC, but of the NATO alliance too. The only gainer would be the Soviet Union. He was very worried about the situation.

22. Herr Genscher said that in the past pressures from the East had always helped us to make progress on problems in the West. If the opposite happened this time it would be disastrous. The British belonged to the EEC for their own interests, which was true of the FRG too. The Chancellor had developed some ideas following his talks in London, which could be attractive, and which could provide a chance of going beyond the figures quoted so far. He himself could think of nothing new to suggest. Lord Carrington said that François-Poncet said that there would be no chance of a solution without a package. He could not however see what would be so attractive in a package for our partners. Fish was one possibility, but this was not going too badly already. Herr Genscher said that it was a question of face-saving. Fish had become a political problem. On sheepmeat, we were against a new regulation. But if this was one of the bases of an agreement, we might have to accept a new regulation; one more should make no difference. It would have a great impact if Britain joined the EMS. It was a fact that the French needed a package to show to their customers at home. Lord Carrington said that these were all small items. On fish, we too needed to look after our fishermen. As regards sheepmeat, we could consider an economical premium. In the energy field, we were not sure what was wanted. François-Poncet had told him that a cosmetic position on energy would help us a bit, but not much. On EMS, German experts apparently thought that it would be disastrous if we joined. Herr Genscher commented that that proved that Ministers should meet without experts. If the UK could at least say that she could join within 18 months at an appropriate date, that would help greatly. Lord Carrington said that we could look at this. Herr Genscher said that this would open up the prospect of membership, and be a European gesture. It would enable others to move in the financial field in their own domestic circumstances.

23. Lord Carrington said that the large financial gap was getting larger, not smaller. He hoped the Germans had taken note of our six points. He hoped he was not being alarmist, but he had told the

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Chancellor that it would be disastrous if we went on quarrelling over the next few months. Herr Genscher said that the Prime Minister's remarks about withholding in her TV interview had made things more difficult. Lord Carrington said that Mrs Thatcher had been rather mis-reported. Herr Genscher asked whether we could not reduce the gap by making up a package, and produce new calculations of the figures with new elements. He thought that a proposal should be agreed amongst the French, Germans and ourselves first, not because we were the biggest, but because we were the most directly concerned. Lord Carrington stressed the importance of greater expenditure in the UK.

24. Herr Genscher said we should not assume that the French position was easy. Giscard had had great difficulties with the Franco/German communiqué. Lord Carrington commented that he seemed to be well-placed politically. Herr Genscher was doubtful. The Gaullists were still causing the President difficulty.

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